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Buckingham, William
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The Currency, speech ...
in the Senate...

Washington

1870

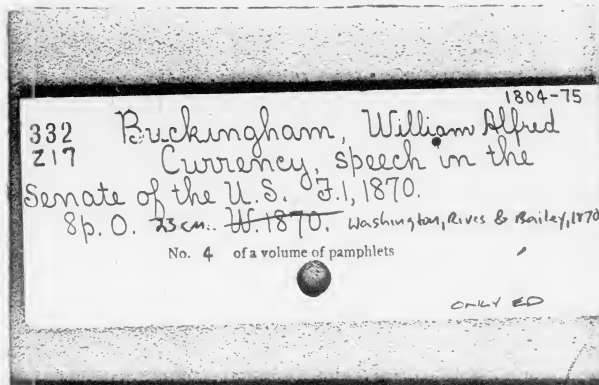
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THE CURRENCY.

SPEECH
OF
HON. WILLIAM A. BUCKINGHAM,
OF CONNECTICUT.

DELIVERED

IN THE SENATE OF THE UNITED STATES,

FEBRUARY 1, 1870.

WASHINGTON:
F. & J. RIVES & GEO. A. BAILEY,
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1870.

THE CURRENCY.

The Senate having under consideration the bill (S. No. 378) to provide a national currency of coin notes and to equalize the distribution of circulating notes—

Mr. BUCKINGHAM said:

Mr. PRESIDENT: I propose to speak upon the subject of banking and of public credit, questions intimately connected with the subject that is now under consideration. I should like to speak from two texts. I will take the bill introduced by the distinguished chairman of the Committee on Finance [Mr. SHERMAN] for one, and Senate bill No. 444, now lying upon your table, for the other. I will ask the Secretary to read that bill as a part of my remarks. The Secretary read the bill, as follows:

A bill supplementary to an act to provide a national currency secured by a pledge of United States bonds, and to provide for the circulation and redemption thereof, approved June 3, 1864.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the act entitled "An act to provide a national currency secured by a pledge of United States bonds, and to provide for the circulation and redemption thereof," approved June 3, 1864, be, and the same is hereby declared to be open, and all persons are free to organize banking associations in accordance with the provisions of this act and of the act to which this is supplementary.

SEC. 2. *And be it further enacted,* That no banking association shall be hereafter organized under this act with a capital of less than \$20,000, nor shall any association hereafter organized receive from the Comptroller of the Currency notes for circulation to an amount exceeding forty-five per cent. of its capital actually paid in, and all banking associations now organized having a larger circulation than forty-five per cent. of their respective capitals are hereby prohibited from issuing or re-issuing any notes received by them from the Comptroller of the Currency until the amount issued by such association shall be reduced to the limits herein specified. And whenever any association having a larger circulation than forty-five per cent. of its capital shall, for the purpose of reducing the same, surrender to the Comptroller of the Currency any of its own notes, in sums of \$500 and its multiple, such notes shall be burned in accordance with the provisions of the twenty-fourth section of the act to which this is an addition; and the Treasurer of the United States shall thereupon deliver to

such association so many bonds as have been pledged for the security of notes so destroyed.

SEC. 3. *And be it further enacted,* That all banking associations hereafter organized under this act shall make provision for the redemption and payment of notes which they may receive from the Comptroller of the Currency for circulation as herein provided; and whenever such provision shall be made by any banking association it shall be entitled to receive circulating notes in accordance with the provisions of this act.

Until the Secretary of the Treasury shall, in his monthly statement of the public debt of the United States certify that the amount of United States legal-tender notes in circulation is reduced to \$20,000,000, exclusive of fractional currency, all securities deposited with the Treasurer of the United States for the redemption and payment of circulating notes shall consist of United States legal-tender notes. And whenever the Secretary of the Treasury shall in his monthly statement, certify that the amount of United States legal-tender notes in circulation is reduced below \$20,000,000, exclusive of fractional currency, and is above \$10,000,000, not less than one half of all securities deposited with the Treasurer of the United States for the redemption and payment of circulating notes shall consist of United States legal-tender notes, and one half of such securities shall consist in part or in the whole of such notes or of any United States bonds which the Treasurer shall be authorized by law to receive and hold for that purpose. And whenever the Secretary of the Treasury shall in like manner certify that the amount of United States legal-tender notes in circulation is reduced below \$10,000,000 all securities deposited with the Treasurer of the United States for the same purpose shall consist in part or in the whole either of United States legal-tender notes or of any United States bonds which that officer shall be authorized by law to receive and hold for the redemption and payment of circulating notes.

SEC. 4. *And be it further enacted,* That whenever any banking association organized under this act shall deliver United States legal-tender notes to the Treasurer of the United States, in accordance with the provisions of this act, in sums of \$1,000 and its multiple, it shall be the duty of that officer to execute United States registered bonds for an equal amount, and such bonds shall be free from State and municipal taxation, shall be payable in coin in thirty years from the 1st day of the January or July next preceding the time at which they shall be executed, and shall bear interest at the rate of — per cent. per annum, payable semi-annually in coin; but the Treasurer shall not allow or pay interest on such bonds except from and after the time when the United States notes shall be deposited with him. All bonds thus executed and all bonds deposited by banking associations shall remain with the Treas-

ur, in trust for such associations, as security for the redemption and payment of any circulating notes that may be delivered to them by the Comptroller of the Currency. And all legal tender notes thus delivered to the Treasurer of the United States, and funded in accordance with the provisions of this act, shall be used in the manner designated for burning worn and mutilated currency in section twenty-four of the act to which this is an addition, except that the presence and certificate of some person to represent a banking association shall not be required. Sec. 6. And be it further enacted, That on and after the passage of this act no banking association now or hereafter organized under the laws of the United States, or any State, Territory, or Possession, shall pay interest in any form or manner on any deposit of deposits except so far as may be necessary to fulfill existing contracts which are limited to a definite time; and no such association shall in any manner transfer, convey, sell, or dispose of any coin which it may hereafter receive for interest on bonds deposited with the Treasurer of the United States at any time when the amount of coin held by such association shall be less than — per cent. of the entire indebtedness of the association exclusive of its capital. Provided, That nothing in this act shall be regarded as prohibiting any association from paying its circulating notes in coin on demand.

Mr. BUCKINGHAM. Mr. President, the currency of the country is such a bank and national, is and has for some time been inconvertible into coin. This irredeemable currency has excited speculation, caused great and sudden changes in the nominal values of property, and rendered business unstable and often unprofitable and unsatisfactory. The fact that the Government and the banks have failed to meet their obligations, that they are apparently making little effort to fulfill them, but are quietly waiting for a convenient season, has done much to erode from the minds of men the conviction that they are under obligations to meet pecuniary promises at maturity. This disregard of specific obligations has done much and possibly more than any other one thing to corrupt the morals and to impair the integrity of the business community.

In order to sustain the Government we were forced to issue a currency which all knew could not be redeemed until the supremacy of the Government should be reestablished. It has been reestablished now more than four years, and the currency remains undischarged and the people dishonored; and it is high time that the legislative branch of this Government should give itself to the duty of staying the evils to which I have referred. Many claim that the remedy is to be found only in an immediate return to specie payments through a contraction of the currency, while others clamor for an increase of circulating notes as the only means of avoiding general bankruptcy.

I believe that no remedy will be found until our currency is convertible into coin at the pleasure of the holder, but that there is a more excellent way than to contract it so much and so suddenly as to throw all the engagements of business men out of line and to unsettle their well-devised plans. But an increase of a circulating medium which bears a false and

unfulfilled promise upon its face instead of being a remedy for any one of the evils which I have named would only increase and perpetuate them. The more you issue of such promises the more they will depreciate until they will be as valueless as the notes of the southern confederacy.

You would be like the loaded team going down the mountain side. The load presses heavily; you quicken the team to escape the pressure; the load follows closely with increasing power; it controls the team; you now put on the lash that the team may escape; but no, you have lost control, and the destruction both of team and load is made sure.

The bill which I have introduced for the consideration of the Senate does not propose either of these extremes, nor will it be a remedy for all the evils which I have enumerated. It will not of necessity make men honest, nor prevent speculation, nor preserve business men from errors and mistakes, nor of necessity secure an immediate redemption of specie payments; but if it shall become a law I believe it will have an important bearing upon all these points.

The system of banking established by the General Government has been of great importance during our recent embarrassments, and will be equally valuable after specie redemption. It is not, however, perfect; for no system could be devised and set in operation that would at once meet every contingency that might arise under the varied commercial relations of this people, unless planned by more than human wisdom. Our experience shows the importance of some amendment or addition to the act by which it shall be adapted to our present condition and wants.

But before we shall be able to secure all the benefits which may be derived from the system, it will be necessary to correct certain errors which surround every financial measure which has recently been presented for the consideration of the Senate.

The first error consists in the idea that the country requires an amount of currency that can be determined by the wisdom of Senators. The second error is found in the opinion that each section of the country is entitled to a definite proportion of currency which can be determined and apportioned by statute law.

The third error consists in the belief that we can make an equitable distribution of currency based upon population and upon the resources and business of the country as ascertained by the census.

Soon after I entered this Senate, in March last, a bill was introduced to provide for a redistribution of bank currency. For a time it excited a good deal of interest and an earnest debate. The bill was based upon the error that the amount of bank circulation must be limited in dollars, and that each section of the

country was entitled to a proportion of banking capital and of circulating notes that could be defined by law. That some sections of the country were by the law deprived of a definite proportion, was in the opinion of some honorable Senators unjust, while an act that would take from banking associations already organized a part of the currency which they had obtained upon the implied faith of the Government, would in the opinion of other Senators be unjust. Here was a difference of opinion; a difference in the judgment of Senators as wide as that between right and wrong, between justice and oppression.

Now, so long as the banking act shall remain as it is, there will be the same earnest contest for a preventive or a remedy for such supposed wrong; because in the very nature of things it is impossible for any man or for any body of men, even if they are as wise as Senators, to determine how a given amount of currency can be equitably divided among the people of this nation.

The bill which was introduced by the honorable Senator from Ohio, and which is now under consideration, recognizes this erroneous principle. I do not know but I shall vote for it. I would not if it was a new measure; but as it does not propose to increase the currency, and is in harmony with our present law, I may be influenced to vote for it. But I do not believe in any such basis for distribution as is proposed. I do not believe that a man because he is a man, or that any number of men because they are men, have a right to a definite proportion of bank currency. Nor do I believe that a territory which consists of acres, or in men, women, and children, is for such reasons entitled to any proportion of bank-note circulation that can be defined either by statute law or by the discretion of the Comptroller of the Currency. But suppose it were possible to define the amount of currency that is needed, and to make a distribution that would in every respect be adjusted to the population, the wealth, and the business of the different sections, how long would it remain an equitable distribution? Not a month. The constant migration of our enterprising people, the constant transfer of capital, and the new business enterprises which are daily springing into life in all parts of the country would put your whole machinery out of gear in a day, and a new distribution would be demanded.

What, then, shall we do? I answer, enact a law that will furnish a currency for those sections of the country which, in language often used on this floor, have not their proportion, and which at the same time will not deprive other sections of the country of currency which they have obtained in good faith. This is one of the chief objects which I seek to obtain. It can be accomplished by discarding the error which clamors for a definite amount of cur-

rency, and by adopting a system that will furnish a supply in accordance with the demands of a sound business. We must open the banking act so that men of all classes, engaged in every variety of business, and located in every section of our country, may engage in banking by complying with proper conditions. An objection to this liberality at once arises in the minds of many on the ground that the privilege of circulating money is a franchise of too great value to be so freely granted. True, it is a high privilege, which belongs to the sovereign, and should be granted only when the grant would be for the benefit of the sovereign; but under our Government sovereignty is not lodged in a person nor in an association of persons, but in the whole people, and when their will is crystallized into the form of a law which expresses their purposes as one body that law is the will of the sovereign. If such a law authorizes the circulation of currency under wise restrictions the franchise may be granted for their benefit. But will not this freedom in banking furnish too much currency, so that it will depreciate? It may. There is too much now. The national currency is the greatest obstacle of all in the way of specie redemption. But if you will retire the national currency, and compel the banks to redeem as the law proposes, the amount of bank issues will be adjusted according to their ability to redeem on the one hand and to the demands of trade on the other. By retiring national currency and placing the banks under obligation to hold coin, as the act contemplates, you turn the faces of all toward redemption. Suppose the time shall come, and it should come soon, that you enforce the penalty for non-payment, and close delinquent banks, what will be the consequences? Banks will issue no more currency than they believe they can meet whenever it shall be presented for redemption.

Let me illustrate this position. Suppose a banking association is organized and located in Kansas with a capital of \$1,000,000. It may have \$500,000 in bonds with the Treasurer, and \$450,000 in bills for circulation. So long as these bills lie in the bank the association is receiving interest on the bonds. But this interest is not large enough to satisfy the stockholders and they are anxious to loan their currency. When will it be safe and profitable to make the loan?

I answer, suppose at the time of harvest you apply to the bank for a loan of \$20,000 in currency. The officer inquires what you propose to do with the money and when you will pay the loan. You advise him that you want to buy wheat of the farmers in Kansas and Iowa; that you propose to send it to Chicago, and sell it as soon as it shall arrive and the market will justify. The time of payment being understood, the next inquiry which arises in the mind of the bank officer is this: how long

will the farmers retain the money; and will it reach Chicago, the place of redemption, before the note shall mature and be paid? If no, the \$50,000 can be safely loaned; a part of the crop can be sent to market and sold, and the currency can be redeemed. The loan would prove safe and profitable for the bank, would be in accordance with the demands of a legitimate business, and would benefit many and injure none. If \$50,000 can be used in this way, so can \$450,000, the entire currency of the bank. And in like manner, under a free, elastic system of banking, bank circulation can be used to move the heaviest productions of any and every section of the country.

The bill which the Secretary read provides that no banking association shall be organized hereafter with a capital of less than \$200,000, and that they shall not receive from the Comptroller of the Currency circulating notes to an amount that will require the investment of more than one half of that capital in bonds. The amount of capital may be too large for some places. If so, the amount may be made less without changing the principles of the bill. The bill also requires banks which now have more than forty-five per cent. of their capital in currency to retire so much of it as will release one half of their capital for other purposes. This provision may not be for the interest of all associations now organized, and may not be in accordance with the wishes and interest of many of my immediate constituents, but I have confidence that they will acquiesce in any measures that will give stability to banking and redemption to billholders. This is the object of this provision.

If all the capital of a bank is invested in bonds the only means which it will have to redeem its notes are to be found in deposits and in the obligations of those who have loaned the circulation. But the deposits are liable to be drawn at any moment and cannot be relied upon. The debtor, too, having made his loan on time may not be under obligation to pay as soon as redemption is demanded. In either case the bank is crippled and its notes may go to protest. So it may be if these provisions shall become law.

But this will not be so likely to occur; because if a bank shall loan currency amounting only to forty-five per cent. of its capital, and has in addition fifty per cent. of its capital in business paper, it will have ninety-five dollars due from creditors for every forty-five in circulation. The percentage of indebtedness upon which a bank must to a great extent rely for the redemption of its notes will in the one case be as ninety-five to forty-five and in the other as fifty to forty-five. While there is no specie redemption this provision may be of little importance; but when, specie payments are resumed and business is active it will be of importance for a bank having ninety per cent.

of its capital in circulation to redeem its notes as they will be presented. Public interests demand at our hands some such safeguard as this. But equal security can be furnished by allowing banks that now have an excess of circulation to increase their capital, and this may be the better way.

The second important object which all have in view is to improve public credit. This is essential to our highest prosperity. But there can be no material improvement in public credit so long as the Government continues to pay bonds not yet matured and leaves unpaid obligations already due; nor so long as it depreciates its own obligations by purchasing them at a discount. The policy now pursued by the Government in this particular is a mistaken policy. Every obligation which the Government pays should be paid in coin, dollar for dollar. But instead of this it is purchasing its obligations at about ninety-five cents on the dollar.

I know what it is to be embarrassed, to be unable to meet pecuniary obligations as they matured, and I know that if instead of meeting those debts which were first due I had first paid those which were not due I should have failed to establish that credit which enabled me in the end to overcome my embarrassment and to satisfy fully every creditor. If I had pursued the policy which this Government is now pursuing in paying debts which are not matured and neglecting obligations which are, if I had endeavored to establish a credit by purchasing my own notes at a discount while neglecting to provide for the interest on debts overdue, as this Government is now doing, I should have sunk in deep waters; and so would this Government if it did not rest upon the energies of a people who will prosper and who will pay all their obligations even with such a millstone as this around their necks.

If we would improve public credit we must first satisfy creditors whose claims are due, and I know of no practical way in which this can be done so readily as by funding those obligations which are a constant reproach and dishonor. That is what the bill proposes.

Again, we often speak of the desirableness of relief from taxation and of the importance of leaving our national debt in such a condition that the generation which shall come after us shall pay a part of the obligations which have been incurred for their benefit as well as for our own. This relief is found in the bill which authorizes a postponement for thirty years of debts already due without injustice to any. I have doubts about the expediency of issuing any large amount of bonds redeemable at the pleasure of the Government within certain years. If there is any advantage in issuing a four bond that advantage is lost by reserving the right to which I have referred, and the value of the bond is limited in market

by the shortest time at which it may be paid. But the debt funded as proposed will become due at different periods of time corresponding with the times when legal-tender notes shall be delivered to the Treasurer for the purpose of funding.

Will it be said that no relief will be had because we shall be required to pay interest on the funded debts while we pay none now? I reply that no individual who values his credit and expects to meet all his obligations can afford to have obligations mature and cry daily for payment if he can satisfy his creditors by paying interest and postponing payment of the principal until his ability shall equal the task of paying that. If he cannot pay the principal when due it is reasonable and right that he should pay interest until he can. Such practice is as clearly for the honor and benefit of the nation as for an individual, and there is no rule of morality or of justice that applies to the one which should not be applied to the other.

This bill prohibits the payment of interest on deposits. Why not? Banks are not organized to hire, but to loan capital. Your present act requires banking associations to have on hand at all times lawful money of the United States as a reserve fund for the redemption of their circulating notes. Those which are located in cities where banks are authorized to redeem their notes are required to hold an amount equal to twenty-five per cent. of their circulation and deposits, and others fifteen per cent. But three fifths of the fifteen per cent. may consist in balances due from associations located in cities of redemption. These balances are now called deposits, the greater part of which are loaned to the associations holding the deposits. But these central associations cannot afford to pay interest unless they can reloan that which they hire. As they are liable to be called upon for payment at any time they dare not run the risk of making these loans on time, and therefore they make them payable on call. But men engaged in regular business do not hire money payable on demand. The banks, therefore, seek other customers, and find them in brokers, who, in like manner, loan the hired capital to their customers. What, then, is the thing which your law requires banking associations to have on hand in the form of lawful money of the United States, and which it calls a reserve? It is a balance charged upon the books of one bank against another. Where is it? One quarter of the amount is held by the debtor bank as a reserve, and three quarters are loaned by that bank to brokers, and by them to speculators and gamblers, and is used to undermine and make unstable all regular business. The public, whose interests you are bound to conserve, demands this prohibition.

The proposed bill also requires banking asso-

ciations to hold whatever coin they may receive from the Government for interest on their bonds until the coin shall reach a proper percentage of their indebtedness, except so much as may be paid for the redemption of their circulating notes. This is so simple and plain a proposition that I will not weary the Senate by commenting upon it. Nor will I now say anything in relation to the provisions of the third section of the bill, which, for the redemption and payment of circulating notes, requires a deposit of legal-tender notes to an amount which will depend upon the whole amount of such notes in circulation. These are matters of detail which may be modified without changing the principles or affecting the value of the bill.

I have endeavored to show that there are three important objects which we should attain.

The first is to furnish a sound currency for all sections of the country.

The second is to improve public credit.

The third is to secure the resumption of specie payments.

The Senator from New York was undoubtedly right yesterday when he spoke of the importance of having all these objects presented for the consideration of the Senate at the same time. They are so intimately connected with each other that in my judgment it is not wise to attempt the accomplishment of either as a separate and independent measure. We are aiming to form a threefold cord, and if we fail of laying either strand in line with the other two, the result will show our want of skill and our inability to secure the objects at which we are aiming.

I have spoken of the first and second objects; and in relation to the third would remark, first, that specie resumption cannot be secured without the cooperation of both the banks and the Government; second, that it will be impossible to resume specie payments unless the Government shall lead in the measure; third, it will be impossible for the Government to resume until it shall first pay or fund a large portion of the legal-tender notes now in circulation.

I will not weary the patience of the Senate much longer. It is said that the amount of our circulation should be definite and unchanging. But is the business of the nation unchanging, and is the amount of our productions definite? Can you bind our people and their business as you bind a prisoner with chains? Our western friends now complain that the greater part of their embarrassments arises from the limit which the law fixes to our currency. Do not understand that I am in favor of expansion; it would be the most dangerous measure which we could adopt. Undue expansion is more fatal, more overwhelming in its influence for evil upon business, than the most rigid adherence to a specie currency. I would hold every

bank to positive redemption, with which there will not be too much currency. Our banking system should be established upon principles which lie at the foundation of internal commerce, and which will make it both so stable and so changeable that it may meet the demands of our ever-varying and ever-increasing business.

Mr. President, within a few years an improvement has been made in steam-engines by a distinguished citizen of Rhode Island, by which, without an increase of cost, a large percentage has been added to steam-power used in mining and in our varied and extended branches of manufacturing. It is done by valves connected with the governor, which measure out to the cylinder of the engine just so much power, and no more than is necessary to carry with a given velocity the load which may be attached to the engine. If you attach twelve machines for rolling iron to an engine of proper capacity, you will find it impossible to operate them all to advantage with a definite and uniform amount of steam-power. At one time you will find but one machine forming the bars, at another six, at another the whole; and at each different period a different amount of power will be required. The invention will increase or diminish the power as often and as rapidly as the different machines are put to their work or released from duty. It is automatic; a self-adjustment of steam-power which will carry a small or a heavy load, as the necessities of the case may require.

The currency is the power by which the products of our land are transferred from one end of the continent to another; the medium by which internal exchanges are made and balances settled. The demand for this power is not uniform. When heavy crops are to be transported from places of production to market, when our mechanical and manufacturing establishments are in full operation, and the fruits of our entire industry are to be distributed, a large amount of this power is required. But when such products are sold, when currency returns to the center, and business in a measure becomes stagnant, as it often does, a less amount is required. What we want is a system of banking that will meet these changing conditions; a system that will, on the one hand, measure out currency sufficient to carry the heavy or lighter load which our ever-varying business transactions may demand, and on the other, not so much but that it may be redeemed at the pleasure of the holder. I believe that this can be done, and when accomplished that we shall have the best system of banking which has yet been devised for a free people; that we shall have currency sufficient to do the business of every section of the country; that public credit will be appreciated; that the national debt can be consolidated into bonds bearing a lower rate of interest; that taxation will be reduced, and the Government and the banks and the people will be moving with rapidity in the direction of specie payments, with the Government in the front line.

**END OF
TITLE**